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### USSR: Protecting Foreign Investment

Moscow recognizes that it must provide some protection for foreign firms if it is to encourage large-scale investment in the USSR. The Soviet leadership, therefore, is seeking to establish bilateral investment treaties with many of its major Western trading partners. Such treaties are designed to reduce political or country risk--the risk that political or military conditions may preclude settlement of obligations to foreign investors and creditors. [REDACTED]

To date, the Soviet leadership has signed investment protection treaties with Finland, West Germany, Belgium, Luxembourg, and Turkey. In addition it has worked out a protocol agreement with the United Kingdom, reportedly is negotiating treaties with France and Italy, and is wooing Japan and the United States to consider such a pact.

- o The agreements provide foreign investors with protection against expropriation, the means to solve legal conflicts, and assurances of nondiscrimination.
- o They also make some effort to address financial concerns--these treaties, in general, guarantee the repatriation of hard currency earnings by the Western partner, and the Finnish pact, in particular, ensures the supplies of inputs to the joint venture. [REDACTED]

> Moscow's problem is that Western firms are only in part apprehensive about "political risks," but are very concerned about financial losses which may result from existing Soviet legislation and the unsettled economic climate. The agreements likely allow only a transfer of hard currency earned by a joint venture rather than a willingness by Moscow to convert ruble earnings from domestic sales into hard currency. [REDACTED]

Thus, most Western firms are reluctant to invest company funds in projects with uncertain returns. Consequently, many joint ventures have been founded with combined partner equity contributions that are too small to initiate or sustain operations. Joint ventures have looked westward for financing, but Western bankers have been reluctant to lend because of formidable problems.

- o While Soviet law ensures that Soviet and Western partners are not liable for obligations incurred by the joint venture, lenders are likely to assess carefully the experience of both. Soviet reluctance to provide useable financial information on Soviet enterprises makes it more difficult for Western bankers to determine the risks, costs, and benefits of potential joint ventures.
- o In many cases, joint ventures could have difficulty paying off hard currency loans because ruble profits are not convertible and Soviet-produced goods are difficult to market in the West.

As a result, Western banks are looking to the Soviet side--preferably the central government--to guarantee repayment of loans, but Moscow has yet to sanction officially this option. [REDACTED]

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Areas of Potential Agreement on  
US-Soviet Counterterrorism Cooperation

Despite an asymmetry in interests between the US and the USSR in counterterrorism cooperation, Moscow's concern about a perceived growing threat from domestic terrorists could give the US more leverage in future discussions. Recent US-Soviet discussions have shown the most agreement in areas of overlapping interests, such as airline security and terrorist attacks against diplomats. The Soviets themselves have suggested other areas for potential cooperation:

- o A Soviet academician suggested in August that the US and USSR coordinate public statements on terrorist incidents, including jointly condemning acts of violence directed against innocent bystanders.
- o He also suggested that the United States and the Soviet Union cooperate in limiting transfers of certain kinds of weapons used by terrorists.
- o At talks earlier this year the Soviets showed interest in the Americans' suggestion of chemically tagging explosives to help trace how they fall into terrorists' hands. [REDACTED]

The last two ideas are almost certainly exploratory in nature, but they suggest that the USSR is seriously seeking common areas to extend the discussion. The first area -- public diplomacy -- probably offers the greatest potential for near-term cooperation. The US, for example, could urge the Soviets to:

- o raise their profile in public statements supporting certain Latin American countries' struggle against narcotics-related terrorism. They could hype any counterterrorist angle in their extensive military relationship with Peru.
- o make their blanket statements condemning terrorist attacks more specific, condemning involved groups by name.
- o publicize their privately-stated opposition to specific groups; so far they have avoided coming out of the closet and taking any heat.
- o modify their policy of publicly defending Qadhafi's acquisition of chemical weapons and pretending, in the face of private admissions to the contrary, ignorance of what he was doing at the Rabta plant. [REDACTED]